



downing planned exit
VCT 2 & 3



SECURITIES NOTE
(including Application Form)

Offers for Subscription
for the tax years 2009/10 and 2010/11

Downing Protected VCT II plc
to be renamed

DOWNING PLANNED EXIT VCT 2 PLC
(subject to Shareholder approval)

Downing Protected VCT III plc
to be renamed

DOWNING PLANNED EXIT VCT 3 PLC
(subject to Shareholder approval)

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Offer Statistics for each Company

Offer price per New Share	100p
Initial Net Assets per New Share at the close of the Offers	94.5p
Maximum number of D Shares in issue, following the Offers, at full subscription	10,000,000
Maximum number of E Shares in issue, following the Offers, at full subscription	15,000,000
Maximum net proceeds following the Offers, after issue costs, at full subscription	£9,455,000

The subscription proceeds will, so far as possible, be divided equally between the Companies. The application of the subscription proceeds is subject to the absolute discretion of the Directors.

Special Terms

Downing VCT shareholders (including spouses)

Accepted applications received by 15 January 2010 will attract Additional Shares equivalent to 2% of the amount subscribed under the Offers. Thereafter accepted applications will attract Additional Shares equivalent to 1% of the amount subscribed under the Offers.

All other Investors

Accepted applications received by 15 January 2010 will attract Additional Shares equivalent to 1% of the amount subscribed under the Offers.

The cost of these extra shares will be paid by Downing Corporate Finance Limited.

This document, the Registration Document and the Summary, which together comprise the prospectus ("the Prospectus") relating to the Companies, have been prepared in accordance with the Prospectus Rules made under Section 84 of the Financial Services and Markets Act 2000 ("FSMA") and the Prospectus has been approved by, and filed with, the Financial Services Authority.

Application has been made to the UK Listing Authority for up to 10,000,000 D Shares and up to 15,000,000 E Shares, in each Company, to be admitted to the Official List. Application will also be made to the London Stock Exchange for up to 10,000,000 D Shares and up to 15,000,000 E Shares in each Company, to be admitted to trading on its main market for listed securities. It is expected that Admission of the first allotment of New Shares will become effective, and that dealings in these shares will commence, by 31 December 2009 and of subsequent allotments thereafter within 20 Business Days of allotment.

Each Company and its Directors, whose names appear on page 10 of this document, accept responsibility for the information contained in the Prospectus. To the best of the knowledge of each Company and its Directors (who have taken all reasonable care to ensure that such is the case) the information contained in the Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Howard Kennedy is acting as sponsor and Downing Corporate Finance Limited is acting as promoter of the Companies in connection with the Offers, and neither of them is advising any other person or treating any other person as a customer or client in relation to the Offers or (subject to the responsibilities and liabilities imposed by FSMA or the regulatory regime established thereunder) will be responsible to any such person for providing the protections afforded to their respective customers or clients, or for providing advice in connection with the Offers.

Downing Planned Exit VCT 2 plc*

(Incorporated in England and Wales under the Companies Act 1985 with registered number 5334418)

Downing Planned Exit VCT 3 plc*

(Incorporated in England and Wales under the Companies Act 1985 with registered number 5334413)

Offers for Subscription for the 2009/10 and 2010/11 tax years

of up to, in aggregate, 20,000,000 D Shares at an issue price of 99.9p each
and 20,000,000 E Shares at an issue price of 0.1p each
comprising up to 10,000,000 D Shares and up to 10,000,000 E Shares in the capital of each Company

Share capital of the Companies immediately following the Offers, assuming full subscription under both Offers:

Company	Authorised		Issued and to be issued fully paid	
	No. of shares	Nominal value	No. of shares	Nominal value
Ordinary Shares				
Downing Planned Exit VCT 2 plc* (ISIN: GB00B0697094)	40,000,000	£400,000.00	9,994,968	£99,949.68
Downing Planned Exit VCT 3 plc* (ISIN: GB00B078VQ91)	40,000,000	£400,000.00	10,064,617	£100,646.17
A Shares				
Downing Planned Exit VCT 2 plc* (ISIN: GB00B3D74M80)	41,087,523	£41,087.52	10,762,569	£10,762.57
Downing Planned Exit VCT 3 plc* (ISIN: GB00B3D74T59)	41,086,688	£41,086.69	10,760,064	£10,760.06
C Shares				
Downing Planned Exit VCT 2 plc* (ISIN: GB00B3D74S43)	30,000,000	£30,000.00	7,175,046	£7,175.05
Downing Planned Exit VCT 3 plc* (ISIN: GB00B3D75146)	30,000,000	£30,000.00	7,173,376	£7,173.38
D Shares				
Downing Planned Exit VCT 2 plc* (ISIN: GB00B4VR3D16)	30,000,000	£30,000.00	10,000,000	£10,000.00
Downing Planned Exit VCT 3 plc* (ISIN: GB00B4V7FP75)	30,000,000	£30,000.00	10,000,000	£10,000.00
E Shares				
Downing Planned Exit VCT 2 plc* (ISIN: GB00B4TLF407)	45,000,000	£45,000.00	15,000,000	£15,000.00
Downing Planned Exit VCT 3 plc* (ISIN: GB00B4VZ1D11)	45,000,000	£45,000.00	15,000,000	£15,000.00
Deferred Shares				
Downing Planned Exit VCT 2 plc*	3,912,477	£3,912.48	-	-
Downing Planned Exit VCT 3 plc*	3,913,312	£3,913.31	-	-

*The names of the Companies at the date of this document are Downing Protected VCT II plc and Downing Protected VCT III plc respectively and, subject to Shareholder approval, they are to be renamed to the above names at the General Meeting of each Company to be held on 8 December 2009.

The subscription list for the Offers will open on 6 November 2009 and may close at any time thereafter but, in any event, not later than 1.00 p.m. on 5 April 2010 in the case of the 2009/10 Offer and not later than 5.00 p.m. on 30 April 2010 in the case of the 2010/11 Offer, unless previously extended by the Directors. The terms and conditions of the Offers are set out on pages 21 to 22 of this document and are followed by an Application Form for use in connection with the Offers. There is no minimum subscription for the Offers to proceed and they are not underwritten.

Your attention is drawn to the Risk Factors set out on page 2 of this document. An investment in either Company is only suitable for Investors who are capable of evaluating the risks and merits of such an investment and who have sufficient resources to bear any loss which might arise.

This document should be read in conjunction with the Summary and Registration Document, which may be obtained from the promoter of the Offers:

Downing Corporate Finance Limited
Kings Scholars House
230 Vauxhall Bridge Road
London SW1V 1AU

telephone: 020 7416 7780
download: www.downing.co.uk
email: vct@downing.co.uk

Risk Factors

Each Company's business, financial condition or results could be materially and adversely affected by any of the risks described below. In such cases, the market price of the New Shares may decline as a result of any of these risks and Investors may lose all or part of their investment. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse effect on the Companies. The Directors consider the following to be all the material risks for potential Investors in the Companies and are not set out in any particular order of priority:

- Although it is intended that each Company will be managed so as to continue qualifying as a VCT, there is no guarantee that such status will be maintained. Failure to do so could result in adverse tax consequences for Investors, including being required to repay the 30% income tax relief.
- The levels and bases of reliefs from taxation may change and could apply retrospectively. The tax reliefs referred to in this document are those currently available and their value depends on the individual circumstances of Investors. The Companies' objectives have been set on the basis that all Investors obtain 30% income tax relief on their subscriptions. Therefore, this investment may not be suitable for Investors who do not qualify for the full 30% income tax relief.
- The target tax-free return to New Shareholders of at least 9% per annum is only a target and is not guaranteed and there is no certainty as to the level of dividends. If any of the Companies' investments do not perform to plan, then there could be a shortfall or delay in receipt of the Shareholder Proceeds and hence a reduction in the return to New Shareholders. In addition, if there is a change in VCT legislation, or the interpretation of existing VCT legislation, such that the payment of Shareholder Proceeds has an adverse effect on either Company's VCT status, then such payments may not be made.
- Although the New Shares will be Listed, it is highly unlikely that a liquid market in the New Shares will develop as the initial income tax relief is only available to those subscribing for new shares and there may never be two competitive market makers. It may, therefore, prove difficult for New Shareholders to sell their New Shares. In addition, there is no guarantee that the market price of the New Shares will fully reflect their underlying Net Asset Value or the ability to buy and sell at that price. It should be noted that shares held in VCTs usually trade at a discount to the VCT's net asset value.
- New Shareholders should be aware that the sale of New Shares within five years of their subscription will require the repayment of some or all of the 30% income tax relief obtained upon investment. Accordingly, investment in the Companies is not suitable as a short or medium term investment.
- Most of the Companies' investments are likely to be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise.
- In order to comply with VCT legislation, the Qualifying Companies must have gross assets of not more than £7 million prior to such investment and have fewer than 50 full time employees. Such companies generally have a higher risk profile than larger companies and may also have limited trading records. Therefore, Qualifying Companies may not produce the anticipated returns and Investors could get back less than they invested.
- There is no guarantee that the Companies' objectives will be met or that suitable investment opportunities will be identified.
- Each Company's ability to obtain maximum value from its investments (for example, through their sale) may be limited by the requirements of the relevant VCT legislation in order to maintain the VCT status of the relevant Company (such as the obligation to have at least 70% by value of each VCT's investments in Qualifying Investments).
- The past performance of investments made by the Downing VCTs or the Management Team should not be regarded as an indication of the performance of investments to be made by the Companies.
- Changes in legislation in respect of VCTs in general, and Qualifying Investments and qualifying trades in particular, may restrict or adversely affect the ability of the Companies to meet their objectives and/or reduce the level of returns which would otherwise have been achievable.
- The value of New Shares is dependent on the performance of the Companies' underlying investments. The value of the investments and the dividend stream can rise and fall.
- If there are insufficient funds in one of the Company's share class pools to meet the obligations of that share class, such obligations may fall to be discharged out of the assets of another share class.

Forward-Looking Statements

You should not place undue reliance on forward-looking statements. This Securities Note includes statements that are (or may be deemed to be) "forward-looking statements", which can be identified by the use of forward-looking terminology including the terms "believes", "continues", "expects", "intends", "may", "will", "would", "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. Forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements contained in this Securities Note, based on past trends or activities, should not be taken as a representation that such trends or activities will continue in the future. These statements will be updated as and when required by the Prospectus Rules, the Listing Rules and the DTR, as appropriate.

Letter from the Chairman of each Company

Kings Scholars House
230 Vauxhall Bridge Road
London SW1V 1AU

6 November 2009

Dear Investor,

Subscriptions to VCTs currently attract income tax relief at the rate of 30%. This means that, for every £1 invested, the net cost to VCT Investors should be 70p. Set out below is a table illustrating the hypothetical returns to Investors at four different levels of Shareholder Proceeds, paid out during the period approximately six years from investment.

Illustrative returns for each £1 invested

Shareholder Proceeds	80p	100p	110p	120p
Less: net cost of investment (assuming 30% income tax relief)	(70p)	(70p)	(70p)	(70p)
Tax-free cash profit	10p	30p	40p	50p
Tax-free profit (as a % of net cost of investment)	+14%	+43%	+57%	+71%
Net Return ¹	2.6% p.a.	6.9% p.a.	8.8% p.a.	10.5% p.a.
Gross equivalent return (to a 40% taxpayer)	4.3% p.a.	11.5% p.a.	14.6% p.a.	17.4% p.a.

The above returns are set out for illustrative purposes only and no forecast or projection is implied or should be inferred.

¹ The Net Return is the internal rate of return based on an investment of 100p deemed to be made on 5 April 2010, 30p income tax relief deemed to be received seven months later on 5 November 2010 and either 80p, 100p, 110p or 120p of cash returned to Shareholders, comprising dividends of 2.5p on 30 November 2010, and 2.5p on 31 July 2011 and on the same dates each year until 30 November 2014, 50% of the balance of the proceeds on 30 September 2015 and the remaining funds on 30 June 2016.

The Companies will continue to target capital preservation. The Directors will accept lower returns on their investments in return for lower risk. The key points for Investors are:

- 1. Risk reduction** – It is intended that the focus will be on investee companies which own substantial assets and the Companies will seek to take a charge over these assets in order to reduce the risk on their investments.
- 2. Clear exit plans** – The Directors are targeting a minimum Net Return (inclusive of 30% income tax relief) to New Shareholders of 9% p.a. (15% p.a. gross equivalent to a 40% taxpayer) over the life of the New Shares (expected to be approximately six years). This is only a target, not a projection or forecast, and there is no guarantee that it will be achieved.
- 3. Low annual charges** – The annual management fee is only 1.35% of net assets attributable to New Shareholders.

If Investors have any questions regarding this investment they should contact their financial adviser. For questions relating to an application, please telephone Downing on 020 7416 7780. Investors should note that no investment advice can be given by Downing and their attention is drawn to the Risk Factors set out on page 2 of this document.

Yours sincerely



Hugh Gillespie
Chairman

Part I – The Offers

Introduction

VCTs were introduced to encourage individuals, by offering them substantial tax benefits, to invest in a portfolio of investments comprising at least 70% unquoted UK trading companies. VCTs are investment companies whose shares are listed on the Official List and traded on the London Stock Exchange. To date, approximately £3.5 billion has been raised by over 100 VCTs (*source: Downing*).

VCTs were created so that their investors could benefit from a spread of Qualifying Investments under the supervision of professional managers, who can in many cases contribute valuable experience, contacts and advice to the businesses in which they invest. VCTs have to be approved by HM Revenue & Customs as required by the venture capital trust legislation. VCTs are entitled to exemption from corporation tax on any gains arising on the disposal of their investments and such gains may be distributed tax-free to investors.

The Companies' share offers were initially launched in January 2005 under the names Downing Protected VCT II plc and Downing Protected VCT III plc. The Companies' principal objectives include reducing the risks normally associated with VCT investments; thus the use of the "Protected" name. Although the Companies seek to be low risk within their sector, potential investors need to be aware that VCTs, as a whole, are high risk. It is for this reason that the Board and the Managers consider that it may no longer be best practice to use "Protected" in the name of the VCTs. The Companies have a common strategy of selling their investments after the minimum holding period and returning the proceeds to Shareholders. These types of VCTs are often categorised as "limited life" or "planned exit" VCTs. Therefore, the Companies names are proposed to be changed to "Downing Planned Exit VCT 2 plc" and "Downing Planned Exit VCT 3 plc" respectively.

The Companies' initial public share offers raised gross aggregate proceeds of £20.3 million (£10.15 million in each Company) during 2005. A further share offer of 2008 Shares was launched in September 2008, raising aggregate proceeds of £14.3 million (£7.15 million in each Company).

Ordinary Shareholders who invested in 2005 had a net cost of 60p per share following the receipt of income tax relief of 40p per Ordinary Share. By August 2009, Ordinary Shareholders had received total dividends of 89p per Ordinary Share, equating to a tax-free return, calculated as an IRR, of 10.8% per annum, 18% gross equivalent to a 40% taxpayer. This is in addition to the remaining Net Asset Value of 1.2p per Ordinary Share for each Company. As at 31 October 2009, each Company held investments in 13 companies with a total value of £5.7 million (*source: announcements made by the relevant company through a regulatory information service*).

Reasons for the Offers

The Offers have been designed for Investors seeking to invest in a portfolio of asset-backed unquoted investments, whilst taking advantage of the VCT tax reliefs.

For each £1 subscription for New Shares, an Investor will receive one D Share and one E Share at the following Offer Price:

- 99.9p for each D Share; and
- 0.1p for each E Share.

Further details on the New Shares can be found in Part III of this document.

The Offers will also allow the running costs for all Shareholders to be spread over a larger asset base, reducing the running costs per Share.

Each Company is seeking to raise an additional £10 million (a total of £20 million) under the Offers. The subscription proceeds will be allocated, as far as possible, equally between the Companies (subject to the absolute discretion of the Board). The Companies operate as parallel VCTs (i.e. they have identical Boards) and it is intended that they continue to be approximately equally capitalised, will continue to co-invest equally on the same terms in every investment and their running costs will be shared equally. Each application for New Shares under the Offers will be allocated to one of the Companies by the Boards (i.e. not split between the two Companies). The benefit of issuing shares in two VCTs (rather than one VCT) is that, together, they can continue investing in larger single transactions of up to £2 million per tax year.

The New Shares

The existing investments and cash attributable to the Existing Shares will be kept separate from the proceeds of the issue of the New Shares, which will be administered as a separate investment pool. The holders of New Shares will have the right to participate (by way of dividends and return of capital) in

those assets attributable to the New Shares but not in those assets attributable to the Existing Shares. Conversely, the holders of Existing Shares will have the right to participate (by way of dividends and return of capital) in the assets attributable to the Existing Shares but not in those assets attributable to the New Shares.

The New Shareholders will be entitled in respect of the New Shares:

- to vote at meetings of the Company in the same way as Existing Shareholders – New Shareholders must approve separately any change to the Articles which affects the rights attaching to the New Shares;
- to receive dividends declared on income received from and realised profits arising on investments funded from the proceeds of the New Share issue; and
- in the event that the Company is wound up, to receive those assets attributable to the New Shares.

Objectives

The Companies’ principal objectives are to:

- (i) maintain VCT status to enable Investors to benefit from 30% income tax relief on investment;
- (ii) reduce the risks normally associated with VCT investments;
- (iii) target a tax free return to Investors of at least 9% per annum (15% per annum gross equivalent to a 40% taxpayer) over the life of the New Shares (expected to be approximately six years). This target Net Return is calculated on the net investment of 70p per New Share (being £1.00 less 30p income tax relief); and
- (iv) target an annual dividend of at least 5p per New Share.

The targets above are not to be construed as forecasts. The Companies will not vary these objectives, to any material extent, without the approval of Shareholders.

Taxation Benefits to Investors (see Part II for further details)

The principal UK VCT tax reliefs, which are available on a maximum investment of £200,000 per individual in each of the 2009/10 and 2010/11 tax years, are set out below:

- **Income tax relief at 30%** of the amount subscribed provided the VCT shares are held for at least five years. Relief is restricted to the amount which reduces the Investor's income tax liability to nil.
- **Tax-free dividends and capital distributions** from a VCT.
- **Capital gains tax exemption** on the disposal of VCT shares.

The table below shows the effect of the initial 30% income tax relief:

Effect of initial 30% income tax relief	
Cost of investment	Per New Share
Gross subscription by Investor	100.0p
30% income tax relief	(30.0p)
Net of tax cost of investment	70.0p
Initial value of investment	
Gross subscription by Investor	100.0p
Issue costs	(5.5p)
Initial net asset value	94.5p
Initial "uplift" (pence)	+24.5p
Initial "uplift" (%)	+35.0%
<p>The above table shows that, assuming income tax relief is received at 30%, the Investor's net of tax cost of investment is 70p per New Share and the initial NAV is 94.5p, an "uplift" of 24.5p per New Share or +35%. Investors should note that they are required to hold the New Shares for at least five years in order to retain the full amount of income tax relief and, as such, this initial uplift cannot be immediately realised.</p>	
<i>(source: Downing)</i>	

This represents only a very brief summary of the UK tax position of investors in VCTs, based on the Companies’ understanding of current law and practice. Further details are set out in Part II of this document. Potential investors are recommended to consult their own appropriate professional advisers as to the taxation consequences of their investing in a VCT.

Dividends

The Boards have a stated objective of paying an annual dividend of 5p per New Share, comprising a minimum of 2.5p per New Share paid twice a year, subject to the availability of sufficient distributable profits. Set out below is a table illustrating the returns to New Shareholders assuming an annual dividend of 5p per New Share is paid. Investors should note that the target annual dividend of 5p per New Share is an objective and is not guaranteed.

Illustrative Returns per New Share			
Before 30% income tax relief			
Offer Price	Target annual dividends	Tax-free return	Gross equivalent yield ²
100.0p	5.0p	5.0% p.a.	7.4% p.a.
After 30% income tax relief			
Net of tax offer price ¹	Target annual dividends	Tax-free return	Gross equivalent yield ²
70.0p	5.0p	7.1% p.a.	10.5% p.a.

¹ The returns listed after 30% income tax relief are based on the Offer Price of 100p multiplied by 70%, to reflect the initial income tax relief of 30%. Investors should note that they will be required to pay the full Offer Price and claim the income tax relief separately following investment.

² The gross equivalent yield from UK dividends to a 40% taxpayer (reflecting the 32.5% income tax charge to a 40% taxpayer on taxable gross non-VCT dividends including the notional 10% tax credit) is calculated by dividing the tax-free return by 67.5%.

Dividends are expected to be paid bi-annually around the end of July and November each year; the first dividend in respect of the New Shares is expected to be paid in November 2010.

Investment Strategy

Qualifying Investments

The Boards control the overall risk of each Company. In addition to maximising the use of its loans to investee companies (subject to the VCT tax rules), the risks normally associated with VCTs will also be reduced by building a diversified portfolio of unquoted company investments from a number of different sectors. The majority of Qualifying Investments will be made in investee companies benefiting from asset-backing, as detailed in the "Investment Policy" below. In the event of a material default by an investee company, it would be each Board's intention to exercise its security over the assets and seek to recover each Company's loan.

Non-Qualifying Investments

The funds not employed in Qualifying Investments will be invested in Non-Qualifying Investments which will provide income to each Company, with a low risk of capital loss.

Investment Policy

The investment policy for the New Shares is identical to that for the 2008 Shares and is as follows:

Qualifying Investments

Qualifying Investments will be sought in UK trading companies. These companies will own substantial assets such as children's nurseries, health clubs, pubs, stock or work-in-progress. Qualifying Investments will also be sought in companies with predictable revenue streams from financially sound customers, ideally with contracts pending or in place. The Companies will generally seek to take a charge over the investee company's assets.

Non-Qualifying Investments

The funds applicable to the New Shares not employed in Qualifying Investments will be invested in:

- Secured Loans; and/or
- Fixed income securities.

Secured Loans will be secured on assets held by investee companies. Fixed income securities will consist of bonds issued by the UK Government, major companies and institutions, liquidity funds, fixed deposits or similar securities and will have credit ratings of not less than A minus (Standard & Poor's rated)/A3 (Moody's rated).

Borrowing Policy

It is not either Company's intention to have any borrowings. Under its Articles each Company does, however, have the ability to borrow a maximum amount equal to 50% of the aggregate amount paid on any shares issued by the relevant Company (together with any share premium thereon).

As a condition of each of its investments, it is intended that the Companies will have the ability to restrict the investee company's ability to borrow. Typically, the Downing VCTs' investee companies have no external borrowings ranking ahead (for security purposes) of the VCTs' investments. However, certain investee companies may be permitted to borrow limited sums (up to 25% of the value of their assets) where the Manager believes it is prudent to do so.

The Directors do not intend to vary the Companies' investment policy, which will be adhered to for at least three years following the date on which the Shares are Listed. However, should a significant change in the investment policy be deemed appropriate this will only be adopted with the relevant Company's Shareholders' approval and in accordance with the Listing Rules.

Target Allocation

Ordinary Shares

The target allocation of the Companies' Ordinary Share funds on and after 31 January 2008 is summarised as follows:

Investment Split	
	Portfolio Split
Qualifying investments	
Loans to Qualifying Companies	50%
Equity in Qualifying Companies	25%
Non-qualifying investments	25%
Total	100%

Note: The above table represents the approximate split of each Company's portfolio. The Board may increase the proportion of Qualifying Investments above 75% to allow for the possibility of early realisations without breaching the VCT Regulations.

New Shares and 2008 Shares

Initially, the majority of funds will be invested in non-qualifying investments. The level of funds invested in non-qualifying investments will be reduced to provide funds for Qualifying Investments such that within three years of the close of the Offers (by 31 January 2011 for funds attributable to the 2008 Shares) the approximate allocation will be:

Investment Split	
	Portfolio Split
Qualifying investments	
Loans to Qualifying Companies	50%
Equity in Qualifying Companies	25%
Non-qualifying investments	25%
Total	100%

Note: The above table represents the approximate split of each Company's portfolio. The Board may increase the proportion of Qualifying Investments above 75% to allow for the possibility of early realisations without breaching the VCT regulations.

Venture Capital Trust Regulations

To maintain its VCT status, each Company complies with a number of requirements within specified time periods as set out in Part 6 of the ITA. Part II of the Registration Document summarises how the main VCT requirements apply to each Company and they include the following restrictions:

- (i) not more than 15% by value of each Company's investments (at the time of investment) can be held in a single company or group (other than a VCT); and
- (ii) each Company is limited to investing up to £1 million per tax year in each Qualifying Company.

Listing Rules

In accordance with the Listing Rules:

- (i) each Company may not invest more than 10%, in aggregate, of the value of its total assets at the time an investment is made in other listed closed-ended investment funds except listed closed-ended investment funds which have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds;
- (ii) each Company must not conduct any trading activity which is significant in the context of its group as a whole; and
- (iii) each Company must, at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with its published investment policy set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 of the ITA.

Share Buyback Policy

During the period up to five years from the date of this document, the Companies will make annual market purchases of their own New Shares, up to a maximum number of New Shares equivalent to 14.9% of the total number of issued New Shares from time to time. The Boards intend to operate a policy of purchasing New Shares in the market at a price equivalent to the Companies' most recently published Net Asset Value, less a discount of 10%. The proceeds received by New Shareholders on the sale of their New Shares to the Companies will be reduced by costs such as the market-maker's margin and stockbroker's commission.

The Companies' share buyback policies will be subject to VCT Regulations, liquidity and the Listing Rules, which include:

- the Companies are usually prohibited from purchasing their own Shares during close periods, which are a minimum of two months prior to the announcement of the half yearly and annual results;
- the minimum price the Companies may pay for each Share will be its nominal value; and
- the maximum price the Companies may pay for each Share is an amount not more than 5% above the average of the middle market values of the Shares taken from the Official List for the five business days immediately preceding the day on which the Shares are contracted to be purchased.

Realisation Plans

It is intended that the assets held in the New Share pool will be sold and that the proceeds will be distributed to New Shareholders within five to six years from the close of the Offers. It is intended that after five years any proceeds received from the sale of investments, attributable to the New Shares will not be re-invested by the Company, but instead used to fund payments to New Shareholders by way of dividends or tender offers. The Performance Incentive has been structured to encourage the early payment of cash proceeds to New Shareholders (see page 11 for details).

Exit Mechanism

It is intended that tax-free cash proceeds will be paid to New Shareholders (net of the Performance Incentive, if applicable) as follows:

Dividends Tax-free revenue and capital dividends.

Tender offers Buybacks of New Shares by way of tender offers at prices equal to each Company's NAV, funded by the proceeds received from the sale of the underlying investments.

Management

Manager

Each Company is managed by the Management Team, whose executives are provided by Downing Corporate Finance Limited and paid by the Managers.

Downing Corporate Finance Limited

Downing was incorporated in 1986 and is authorised and regulated by the Financial Services Authority. Since 1991, Downing has specialised in structuring, promoting and administering tax efficient products. Downing has raised over £130 million for the Downing VCTs and its Management Team comprises 10 executives.

Track Record of the Downing VCTs

Downing's Management Team is responsible for the management of the Downing VCTs, each of which has a strategy of investing in Qualifying Companies primarily benefiting from asset-backing.

Downing's first VCT, Downing VCT 1, was launched in 1997. It is known as an "Evergreen VCT" because it has no fixed wind-up date. It targets an attractive dividend return, whilst providing an asset-backed environment for the capital. Downing's more recent VCTs (launched 2004/05 onwards) target lower returns from their investments than Downing VCT 1 and each has a fixed life ("Planned Exit VCTs").

The income tax relief provides a substantial reduction in the net cost of investment to VCT investors which cushions any subsequent fall in value. The value of the tax reliefs combined with a conservative investment strategy has resulted in all 12 Downing VCT offers providing positive returns from inception (see the table below for details). Investors should note that they are required to hold shares for a minimum period (currently five years) to retain the income tax relief and that some of the VCTs listed below have only recently been launched; consequently, it is too early to judge their performance.

The table below shows the performance of each of the Downing VCTs and compares it to the FTSE All-Share (total return) Index. This table demonstrates that the performance of the Downing VCTs is not strongly correlated to the FTSE All-Share Index. The movement in the FTSE All-Share Index is stated gross of any capital gains tax, income tax and charges which may be payable by investors whereas the Downing VCTs' returns are tax-free and stated after charges.

Track record of the Downing VCTs					
	Tax year of launch	Net cost ¹	Total return to date ²	Increase over net cost (%)	Movement in FTSE All Share(%) ³
Evergreen VCT (no fixed wind-up date)					
Downing VCT 1	96/97	80p	139.60p	+75%	+80%
Planned Exit VCTs (fixed term)					
Downing VCT 2 – Ordinary Shares	04/05	60p	90.20p	+50%	+19%
Downing VCT 3 – Ordinary Shares	04/05	60p	90.20p	+50%	+19%
Downing VCT 4	05/06	60p	95.60p	+59%	-7%
Downing VCT 5	05/06	60p	95.70p	+60%	-7%
Downing VCT 6	06/07	70p	91.05p	+30%	-17%
Downing VCT 7	06/07	70p	90.95p	+30%	-17%
Downing VCT 8/9	07/08	70p	93.40p	+33%	-12%
Downing Opportunities VCT	08/09	70p	102.90p	+47%	+25%
Downing VCT 2 – 2008 Shares	08/09	70p	95.70p	+37%	+25%
Downing VCT 3 – 2008 Shares	08/09	70p	95.70p	+37%	+25%

¹ Net cost is the initial offer price of 100p per share less the income tax relief available to investors in each of the VCTs.
² Total return is cumulative dividends paid (including the tax credits where reclaimable) and the most recently announced net asset value for each VCT in pence per share.
³ The movement in the FTSE All-Share Index is the total return measure of this index (i.e. it includes income) and is calculated from 5 April in the tax year of launch of each VCT up to 31 August 2009.
 (Source: announcements made by the relevant VCT through a regulatory information service and FTSE All-Share (total return) Index.)

Co-investment Policy

It is intended that the Companies will co-invest and divest with each other on identical terms in all material respects and investments will be made in proportion to their respective issued share capital following the completion of the Offers.

The Companies' only other formal co-investment relationships are with the other Downing VCTs, Downing's IHT and EIS funds (together "the Funds"). It has been agreed that allocations will be offered to each party in proportion to their respective funds available for investment, subject to: (i) priority being given to any of the Funds in order to maintain their tax status; (ii) the time horizon of the investment opportunity being compatible with the exit strategy of each Fund; and (iii) the risk/reward profile of the investment opportunity being compatible with the target return for each Fund. The terms of the investments may differ between the parties, but all investments will be approved by the relevant board, designated members or committee. In the event of any conflicts between the parties, the issues will be resolved at the discretion of the independent directors, designated members and committee. It is not intended that the Companies will co-invest with Directors or members of the Management Team (including family members).

Directors

The Companies have identical Boards, comprising three Directors, all of whom are non-executive and independent of the Managers.

Hugh Gillespie (Chairman) is non-executive chairman of Pennine AIM VCT plc, Downing VCTs 4 – 9 and a non-executive director of Burgess Group plc. He was formerly a director of Hill Samuel Bank Limited and non-executive director or chairman of a number of public companies.

Dennis Hale was previously an investment director of Financial Management Bureau Limited (“FMB”), a firm of independent financial advisers based in Cumbria. He was responsible for VCT research within FMB, whose clients have invested in VCTs since 1997. Prior to founding FMB in 1987, he worked for several life assurance companies. He is also a director of Downing VCTs 4 – 9.

Chris Kay has approximately 20 years’ experience in the venture capital industry. He spent nine years with 3i Group, where he was an investment director, and a further eight years at Elderstreet Private Equity Limited, where he headed up the VCT team. He is responsible for managing Chrysalis VCT plc, as well as being chairman of Downing VCT 1 and a non-executive director of Downing VCTs 4 – 5.

The Directors and the Management Team (including spouses) will be investing £85,000 under the Offers on the same terms as Investors, which will bring the total invested by them in the Downing VCTs to approximately £1.7 million.

Structure of the E Shares

Management has been conditionally allotted 5,000,000 E Shares in each Company, at a price of 0.1p each. These E Shares will be unconditionally allotted and issued to Management after 1,666,667 E Shares in each Company have been issued to persons other than to Management or persons who are connected to Management.

In the event that the Offers are fully subscribed, 15,000,000 E Shares will be issued, of which the 5,000,000 E Shares issued to Management will represent one-third of the total issued E Shares in each Company. In the event that the Offers are not fully subscribed, the proportion of Management’s E Shares in excess of one-third of the issued E Share capital in each Company will be converted into valueless Deferred Shares. Therefore, after the close of the Offers, Management will own one-third of the issued E Shares of each Company.

The holders of E Shares will be entitled to distributions equivalent to three times the Performance Incentive. Two-thirds of the distributions in respect of the E Shares will be allocated to Shareholders and one-third to Management, which will result in Management receiving the level of Performance Incentive described below.

Since the E Shares are VCT qualifying, income tax relief is available at 30% of the amount subscribed (provided the E Shares are held for at least five years and that the amount subscribed is within the annual £200,000 limit) and all gains and distributions can be made free of tax. Further details of the terms of the E Shares are set out in Part III of this document.

Costs

Capital Raising Fees

Downing has agreed to discharge all the costs of the Offers in return for an initial commission of 5.5% of the monies raised (i.e. 5.5p per New Share), together with an annual commission of 0.25% per annum of the Net Assets attributable to the New Shares. Out of its capital raising fees, Downing will be responsible for paying all the costs of the Offers including commission (as described under the paragraph headed “Commission” on page 13) to authorised financial advisers.

Annual Fees

The Managers will receive annual investment management fees of 1.35% of the Net Assets attributable to the New Shares (1.35% and 1.00% in respect of the 2008 Shares and Ordinary Shares respectively), and an annual fee of £47,500 (plus VAT, if applicable, and RPI) per Company for administration services. The Annual Running Costs of the New Share pool of each Company are capped at 2.9% (including irrecoverable VAT) of that Company's Net Assets attributable to the New Shares (capped at 2.9% and 2.5% in respect of the 2008 Share pool and Ordinary Share pool respectively) and any excess will be paid by the relevant Manager, or refunded by way of a reduction in its fees. Annual Running Costs include, *inter alia*, Directors' fees, fees for audit and taxation advice, registrar's fees, costs of communicating with Shareholders, annual commission and the annual fees payable to the Managers and Downing, but not the Performance Incentive. For the year to 31 January 2009 Downing VCT 2's and Downing VCT 3's Annual Running Costs were 1.7% and 2.1% of their Net Assets respectively (including irrecoverable VAT). General running costs not specific to either the Existing Share pool or New Share pool will be allocated based on the weighted average pro-rata net assets of each pool, subject to the discretion of the Board. Downing may receive arrangement fees (capped at 1% of the sums invested by the Companies, with any excess paid to the Companies) and monitoring fees (capped at £10,000 per annum in respect of each of the Companies' investments) from investee companies. Costs incurred on abortive investment proposals will be the responsibility of the Managers.

Performance Incentives

Existing Scheme – Ordinary Shares

The existing performance incentive in respect of the Ordinary Shares will have no impact on New Shareholders. The performance incentive was based on the premise that Ordinary Shareholders would receive proceeds of over 80p per 60p invested (£1 net of 40p income tax relief) and achieve a tax-free compound return of at least 8% per annum (after allowing for the income tax relief); both targets being achieved within six years of the last allotment of Ordinary Shares. This hurdle was achieved and 5p per Ordinary Share has been paid in respect of the performance incentive fee for the Ordinary Share pool. The recipients of the performance incentive have agreed to forgo any further amounts.

Existing Scheme – 2008 Shares

The existing performance incentive in respect of the 2008 Shares will have no impact on New Shareholders. The performance incentive is calculated on the same basis as described below for the New Shares, with the calculations of the compound return required for the achievement of the hurdle being referenced to 11 September 2009, the close of the offers for the 2008 Shares.

New Shares

The new Performance Incentive is in respect of New Shares and will have no impact on Existing Shareholders. No Performance Incentive will be payable until New Shareholders: (i) receive Shareholder Proceeds of at least 100p per £1 invested (excluding tax relief); and (ii) achieve a tax-free Compound Return of at least 7% per annum (after allowing for income tax relief on the investment).

The maximum annual Performance Incentive is limited to an amount equivalent to 1.25% of Net Assets attributable to New Shares. If, in any accounting period of the relevant Company, the Performance Incentive payable is less than the Cap then the Cap for following accounting periods will increase by the amount of the shortfall until fully utilised by payments of the Performance Incentive.

Split of Total Proceeds in respect of New Shares

Subject to New Shareholders receiving at least 100p per £1 invested and a 7% Compound Return, Total Proceeds will be distributed as follows:

New Shareholders	97% of the first 100p of proceeds (per £1 invested) and 80% thereafter
Management	3% of the first 100p of proceeds (per £1 invested) and 20% thereafter

If the above distribution would result in New Shareholders receiving less than 100p per £1 invested or lower than a 7% Compound Return, then the return to Management will be reduced until New Shareholders receive at least 100p per £1 invested and a 7% Compound Return. Management's share of the Total Proceeds will be subject to an annual Cap of 1.25% of Net Assets attributable to the New Shares per Company and, after which, 100% of Total Proceeds will be payable to New Shareholders.

The table below illustrates the allocation of Total Proceeds between New Shareholders and Management at five hypothetical levels of Total Proceeds. **No forecast or projection is implied or should be inferred.**

Illustrative Allocation of Total Proceeds in respect of New Shares				
Total Proceeds	Performance Incentive	Shareholder Proceeds¹	Returns to New Shareholders	
Per £1 invested	Per £1 invested	Per £1 invested	Net Return ²	Gross equivalent ³
100p	0p	100p	6.9% p.a.	11.5% p.a.
103p	3p	100p	6.9% p.a.	11.5% p.a.
116p	6p	110p	8.8% p.a.	14.6% p.a.
127p	7p ⁴	120p	10.5% p.a.	17.4% p.a.
137p	7p ⁴	130p	12.0% p.a.	20.0% p.a.

¹ Shareholder Proceeds represent amounts paid by way of dividends or other distributions, New Share buybacks, proceeds on a sale or liquidation of the relevant Company and any other value received by New Shareholders in the relevant Company, but excludes receipt of any income tax relief on subscription.

² The Net Return is the internal rate of return based on an investment of 100p deemed to be made on 5 April 2010, 30p income tax relief deemed to be received seven months later on 5 November 2010 and either 100p, 110p, 120p or 130p of cash returned to Shareholders, comprising dividends of 2.5p on 30 November 2010 and 2.5p on 31 July 2011 and on the same dates each year until 30 November 2014, 50% of the balance of the proceeds on 30 September 2015 and the remaining funds on 30 June 2016.

³ The gross equivalent return is the annual return a higher rate taxpayer would have to earn from an alternative investment, which is subject to 40% tax, to achieve the Net Return. It is calculated as the Net Return divided by 0.6.

⁴ The Performance Incentive is limited by the Cap (1.25% of Net Assets attributable to the New Shares per annum).
Note: All figures are rounded to the nearest whole pence.

Comparison of Costs with Typical Generalist VCTs

The effect of the arrangements with New Shareholders is that the total of the management fee (1.35% per annum) and the maximum Performance Incentive (1.25% per annum) will be 2.6% of Net Assets (inclusive of any irrecoverable taxes) attributable to New Shares in each accounting period for each Company. This latter figure is not significantly higher than many generalist VCTs' management fees alone (typically 2.0% - 2.5% per annum).

The Performance Incentive could, therefore, be considered by Investors as equivalent to a deferred management fee, which is performance-related.

Other Information

Taxation and HM Revenue & Customs Approval

The Directors intend to conduct the affairs of the Companies so that they continue to satisfy the conditions for approval as VCTs and that such approval will be maintained. HM Revenue & Customs has granted the Companies approval under the ITA. The Companies intend to continue complying with the ITA and have retained PricewaterhouseCoopers LLP to advise them on VCT taxation matters.

The Offers and Minimum and Maximum Subscription

D Shares are being offered at 99.9p each and E Shares are being offered at 0.1p each. For each 100p subscribed by Investors and accepted by the Companies, Applicants will be allocated one D Share and one E Share. A maximum of 10 million D Shares and 10 million E Shares, which are being offered to the public, are being made available by each Company under the Offers. In the event that applications are received in excess of the maximum subscription under the Offers, the Directors and the Sponsor reserve the right to use their absolute discretion in the allocation of successful applications, giving priority to the earliest Applicants. Applicants are encouraged to submit their Application Forms early in order to be confident that their applications will be successful and to benefit from Additional Shares as explained on the inside cover of this document.

The minimum investment per Applicant is £5,000. The maximum investment, on which tax reliefs in VCTs are available, is £200,000 per Applicant in each of the 2009/10 and 2010/11 tax years. A husband and wife can each invest up to £200,000 in each of the 2009/10 and 2010/11 tax years. The subscription list for the Offers will open at 9.00 a.m. on 6 November 2009 and may close at any time thereafter, but in any event, not later than 1.00 p.m. on 5 April 2010 in the case of the 2009/10 Offer, and not later than 5.00 p.m. on 30 April 2010, unless fully subscribed earlier or previously extended by the Directors, in the case of the 2010/11 Offer. The Offers are not underwritten. There is no minimum subscription for the Offers to proceed.

The subscription proceeds will, so far as possible, be divided equally between the Companies. The application of the subscription proceeds is subject to the absolute discretion of the Directors.

New Shares will be allotted and issued in respect of valid applications on 5 April 2010, on 30 April 2010 and on any other dates on which the Directors decide.

Application has been made to the UK Listing Authority on behalf of each Company for the Admission of up to 10,000,000 D Shares and 15,000,000 E Shares. D Shares and E Shares will be issued in registered form and be transferable in both certificated and uncertificated form and will rank for all dividends and other distributions declared, paid or made by the Company in respect of the New Shares thereafter. It is anticipated that dealings in the first allotment of D Shares and E Shares will commence by 31 December 2009 and subsequent allotments thereafter within 20 Business Days of allotment. Dealings may not begin before notification of allotments is made. Revocation of the Offers cannot occur after dealings in the New Shares have commenced. Each Company has applied for its D Shares and E Shares to be admitted to CREST and it is expected that the D Shares and E Shares will be so admitted, and accordingly enabled for settlement in CREST, as soon as practicable after Admission has occurred. Accordingly, settlement of transactions in the D Shares and E Shares following Admission may take place within the CREST system if New Shareholders wish. CREST is a voluntary system and New Shareholders who wish to receive and retain share certificates will be able to do so. Share certificates (where applicable) and certificates to enable a claim for income tax relief to be made in respect of New Shares will be posted to New Shareholders within 30 days of each allotment. No notification will be made to successful applicants prior to despatch of definitive share certificates.

Prior to despatch of definitive share certificates (where applicable), transfers (if any) will be certified against the register. No temporary documents of title will be issued. The Offers are not underwritten. As the initial costs of the Offers are fixed at 5.5% of the gross proceeds, the net proceeds of the Offers will be 94.5% of the amount subscribed per New Share.

The result of the Offers will be announced through a regulatory information service provider authorised by the Financial Services Authority.

Commission

Authorised financial intermediaries will usually be entitled to receive an initial commission of either 3% or 2.5% (depending on whether they wish to receive trail commission) of the amount invested by their clients. Additionally, provided that the intermediary continues to act for the client and the client continues to be the beneficial owner of the New Shares, intermediaries who elect to take an initial commission of 2.5% will usually be paid an annual trail commission of 0.25% of the Net Asset Value of their clients' holdings for the life of this investment (the cumulative trail commission is subject to a cap of 4.5% of the subscription price of the relevant New Share).

Availability of the Prospectus

Copies of the Prospectus relating to the Companies are available for inspection only during normal business hours on any weekday (public holidays excepted) at the UKLA's Document Viewing Facility, which is situated at the Financial Services Authority, 25 The North Colonnade, London E14 5HS until the Offers close and may be obtained, free of charge, from each Company's registered office, where they are also on display, and from:

Downing Corporate Finance Limited
Kings Scholars House
230 Vauxhall Bridge Road
London SW1V 1AU

telephone: 020 7416 7780
download: www.downing.co.uk
email: vct@downing.co.uk

Financial Calendar

Financial year end	31 January
Final results announcement	May
Annual general meeting	June/July
Dividend paid at the end of	July & November
Half yearly results announcement	September

Part II – Taxation

VCTs: Summary of the applicable legislation in respect of investors

1. Taxation of a VCT

VCTs are exempt from corporation tax on chargeable gains. There is no restriction on the distribution of realised capital gains by a VCT, subject to the requirements of company law. The Companies will be subject to corporation tax on their income (excluding dividends received from UK companies) after deduction of attributable expenses.

2. Tax reliefs for individual investors

Individuals who subscribe for New Shares must be aged 18 or over to qualify for the tax reliefs outlined below.

Relief from income tax

An investor subscribing up to £200,000 in the 2009/10 tax year for eligible shares in a VCT will be entitled to claim income tax relief, at the rate of 30%, although this relief will be withdrawn if either the shares are sold within five years or the investor takes out a loan which would not have been made, or would not have been made on the same terms, save for the acquisition of such shares. Relief is restricted to the amount which reduces the investor's income tax liability to nil. However, tax credits on dividends are notional and cannot be repaid and, therefore, investors should take this into account when calculating the value of the income tax relief.

Dividend relief

An investor who subscribes for or acquires eligible shares in a VCT (up to a maximum of £200,000 in the 2009/10 tax year) will not be liable for UK income tax on dividends paid by the VCT. The income received by the VCT will usually constitute either interest (on which the VCT may be subject to tax) or a dividend from a UK company (on which the VCT would not be subject to tax). The VCT's income, reduced by the payment of tax (if applicable), can then be distributed tax-free to investors who benefit from this dividend relief. There is no withholding tax on dividends paid by a UK company and consequently the Company does not assume responsibility for the withholding of tax at source. Dividends carry a tax credit at the rate of one-ninth of the net dividend which is not repayable and which cannot be utilised in any other way.

Capital gains tax relief

A disposal by an individual investor of his shares in a VCT will give rise to neither a chargeable gain nor an allowable loss for the purposes of UK capital gains tax. This relief is also limited to disposals of shares acquired within the £200,000 limit described above.

Loss of tax reliefs

- (i) If a company which has been granted approval or provisional approval as a VCT subsequently fails to comply with the conditions for approval, VCT status may be withdrawn or treated as never having been given. The exemptions from corporation tax on capital gains will not apply to any gain realised after VCT status is lost (and on any gain realised by the VCT if approval is deemed never to have been given).
- (ii) For investors, the withdrawal of VCT status may (depending upon the timing of such withdrawal) result in:
 - repayment of the 30% income tax relief on subscription for new VCT shares;
 - income tax becoming payable on subsequent payments of dividends by the company; and
 - a liability to tax on capital gains being suffered in the normal way on the disposal of shares in the company, except that any part of the gain attributable to the period for which the VCT was approved would be exempt.
- (iii) The consequences for investors in a company which never obtains full unconditional approval as a VCT are as follows:
 - repayment of the 30% income tax relief on subscriptions for new VCT shares and interest on overdue tax may arise;

- income tax becoming payable on all payments of dividends by the company; and
- any gain arising on a disposal of the shares would be liable to capital gains tax and losses on the shares would be allowable losses for capital gains tax purposes.

The D Shares and E Shares are both eligible VCT shares for the purposes of this section.

3. Consequences of an investor dying or a transfer of Shares between spouses

(i) *Initial income tax*

If an investor dies at any time after making an investment in a VCT, the transfer of shares on death is not treated as a disposal and, therefore, the initial income tax relief is not withdrawn. However, the shares will become part of the deceased's estate for inheritance tax purposes.

(ii) *Tax implications for the beneficiary*

Provided a number of conditions are met, the beneficiary of any VCT shares will be entitled to tax-free dividends and will not pay capital gains tax on any disposal, but will not be entitled to any initial income tax relief.

(iii) *Transfer of shares between spouses*

Transfers of shares in a VCT between spouses is not deemed to be a disposal and therefore all tax reliefs will be retained.

4. General

(i) *Investors who are not resident in the UK*

Non-resident investors, or investors who may become non-resident, should seek their own professional advice as to the consequences of making an investment in the Company, because they may be subject to tax in other jurisdictions.

(ii) *Stamp duty and stamp duty reserve tax*

No stamp duty or (unless shares in a VCT are issued to a nominee for a clearing system or a provider of depository receipts) stamp duty reserve tax will be payable on the issue of such shares. The transfer on the sale of shares would normally be subject to ad valorem stamp duty or (if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer within two months) stamp duty reserve tax generally, in each case at the rate of 50p for every £100 or part of £100 of the consideration paid where the total consideration exceeds £1,000 or if it forms part of a series of transactions where the total consideration exceeds £1,000. Such duties would be payable by a person who purchases such shares from the original subscriber.

(iii) *Purchases in the market after listing*

Any subsequent purchaser of existing VCT shares, as opposed to a subscriber for new VCT shares, will not qualify for income tax relief on investment but may benefit from dividend relief and from capital gains tax relief on the disposal of his VCT shares.

(iv) *The VCT Regulations 2004*

The VCT Regulations came into force on 17 October 2004. Under the VCT Regulations, monies raised by any further issue of shares by an existing VCT must be applied by that VCT for qualifying purposes. If any of the money raised (except for amounts which HM Revenue & Customs agrees are insignificant in the context of the whole issued ordinary share capital of the VCT) is used by the VCT to purchase its own shares then the funds may be deemed to not have been used for a qualifying purpose.

The above is only a summary of the tax position of individual investors in VCTs and is based on the Companies understanding of current law and practice. Investors are recommended to consult a professional adviser as to the taxation consequences of their investing in a VCT. All tax reliefs referred to in this document are UK tax reliefs.

Part III – Details of the D Shares and E Shares

Reasons for Issuing E Shares

The E Shares provide a performance incentive to Management and only pay out in the event that certain hurdles are achieved (see the paragraph headed "Performance Incentives" in Part I of this document for further information).

Allocation of Shareholders' Subscriptions

For each 100p subscribed by Investors and accepted by each Company, Applicants will be allocated:

- One D Share at a price of 99.9p each; and
- One E Share at a price of 0.1p each.

In the case of fractional entitlements to E Shares, such amounts will be rounded down to the nearest whole number of E Shares, and for the avoidance of doubt fractions of E Shares will not be issued but will be consolidated and sold in the market for the benefit of the relevant Company.

In the event of further issues of D Shares after the close of the Offers, Management will be entitled to subscribe for such number of further E Shares, such that they continue to hold one-third of the aggregate number of issued E Shares.

Both the D Shares and the E Shares will be Listed and should be VCT Qualifying.

Management's holding of E Shares

Before the launch of the Offers, 5,000,000 E Shares in each Company were conditionally allotted to Management, at a price of 0.1p each. These E Shares will be unconditionally allotted and issued to Management once 1,666,667 E Shares in each Company have been issued to New Shareholders who are not Management or connected to Management. In the event that the Offers are fully subscribed, 15,000,000 E Shares will be issued, of which the 5,000,000 E Shares issued to Management will represent one-third of the total issued E Shares in each Company. In the event that the Offers are not fully subscribed, the proportion of Management E Shares in excess of one-third of the entire issued E Share capital in each Company will be converted into worthless Deferred Shares. Therefore, after the close of the Offers, the Management E Shares will represent one-third of the issued E Share capital of each Company, irrespective of the amount raised under the Offers.

Distributions of Income and Capital

Distributions of income and returns of capital (whether by way of reduction of capital or otherwise) shall be made on the following basis to the holders of D Shares and E Shares (from the funds attributable to the D Shares and E Shares):

- Provided that the Hurdle is met (i.e. Shareholders receive proceeds of at least 100% of the amount subscribed and a 7% Compound Return) distributions are made as to 91% to D Shares and 9% to E Shares (i.e. 3% in respect of the Management E Shares) until an amount equivalent to the total subscribed has been distributed; thereafter
- All distributions are allocated pro-rata to the number of shares held (i.e. 60% to the E Shares, including 20% in respect of the Management E Shares).

The above distributions to holders of E Shares are subject to the Hurdle being met. Distributions will be to the holders of D Shares and the holders of E Shares in proportion to the amount subscribed for each class of Shares, until the Hurdle is met. Once the Hurdle is met, all distributions will be to the holders of E Shares until the above split of distributions is achieved (i.e. a catch-up). Once the Cap in the relevant years has been reached, then all distributions thereafter will be made to the holders of D Shares.

In relation to the E Shares, if the amount of any dividend on those shares would, in aggregate, be less than £5,000, or would be less than an amount being equivalent to 0.25p per E Share, then that dividend will not be declared and paid, but the funds relating to the dividend will be retained by the relevant Company and aggregated, with a dividend being declared and paid once either of those thresholds is reached. No interest will be paid on the funds prior to, or after, the declaration of such dividend.

Voting Rights

D Shares

D Shareholders are entitled to receive notice of, to attend, speak and vote at any general meeting, *pari passu* in such respects with the holders of Ordinary Shares and C Shares.

E Shares

The E Shareholders are not entitled to receive notice of, to attend or vote at any general meeting, except where the resolution to be considered by a meeting of Shareholders is in respect of a variation to the rights of the E Shares or where an offer (as defined in the City Code on Takeovers and Mergers published by the Panel on Takeovers and Mergers) remains open for acceptance at the time of the relevant meeting, in which event the holders of E Shares shall be entitled to receive notice of and vote at and attend such meetings and their voting rights shall be *pari passu* with those of the D Shares.

Note:

This section relates to the relationship between E Shares and D Shares and, therefore, has no impact on the current arrangements for the Existing Shares.

Part IV – Financial Information

The 10 largest investments at 6 November 2009 (being the date of publication of this document) represented in total approximately 80% of the net assets of each Company. A summary of each Company's investment portfolio is set out below. Further details of each Company's investments are set out in Part III of the Registration Document.

	Downing VCT 2			Downing VCT 3		
ORDINARY SHARE POOL						
VCT-Qualifying Investments	Cost £'000	Valuation* £'000	% of portfolio	Cost £'000	Valuation* £'000	% of portfolio
Honeycombe Pubs VCT Ltd	65	-	0.0%	65	-	0.0%
Non-qualifying investments						
Vermont Developments Ltd	452	25	20.8%	452	25	23.1%
Chapel Street Hotel (2008) LLP	31	31	26.0%	31	31	28.8%
Sanguine Hospitality Ltd	6	6	4.0%	6	6	5.0%
	<u>489</u>	<u>62</u>	<u>51.2%</u>	<u>489</u>	<u>62</u>	<u>56.9%</u>
	<u>554</u>			<u>554</u>		
Cash at bank and in hand		59	48.8%		46	43.1%
		<u>121</u>	<u>100.0%</u>		<u>108</u>	<u>100.0%</u>
2008 SHARE POOL						
VCT-Qualifying Investments	Cost £'000	Valuation* £'000	% of portfolio	Cost £'000	Valuation* £'000	% of portfolio
Bijou Wedding Venues Ltd ¹	1,015	1,015	14.7%	1,015	1,015	14.8%
East Dulwich Tavern Ltd	344	344	5.0%	344	344	5.0%
Westow House Ltd	304	304	4.4%	304	304	4.4%
Atlantic Dogstar Ltd	162	162	2.3%	162	162	2.4%
	<u>1,825</u>	<u>1,825</u>	<u>26.4%</u>	<u>1,825</u>	<u>1,825</u>	<u>26.6%</u>
Non-qualifying investments						
Hoole Hall Country Club Holdings Ltd	1,206	1,206	17.5%	1,206	1,206	17.5%
Liongold Contracting Ltd	1,000	1,000	14.5%	1,000	1,000	14.6%
Lilliput Development LLP	743	743	10.8%	743	743	10.8%
Thames Club Ltd	500	500	7.3%	500	500	7.3%
Close Imperial Pub Company Ltd	175	175	2.5%	175	175	2.5%
Honeycombe Pubs VCT Ltd	175	175	2.5%	175	175	2.5%
	<u>3,799</u>	<u>3,799</u>	<u>55.1%</u>	<u>3,799</u>	<u>3,799</u>	<u>55.2%</u>
	<u>5,624</u>			<u>5,624</u>		
Cash at bank and in hand		1,276	18.5%		1,250	18.2%
		<u>6,900</u>	<u>100.0%</u>		<u>6,874</u>	<u>100.0%</u>

¹Part of the investment is non-VCT qualifying

* Valuation as at 31 October 2009 - source: each Company's unaudited management accounts for the period ended 31 October 2009

Since 31 October 2009, being the date of the valuation of each Company's ten largest holdings, there has been no material change in the valuation of each Company's ten largest holdings.

All companies are based in the United Kingdom and all investments are unquoted.

Investors should note that the net proceeds of the Offers will be invested in accordance with each Company's investment policy, as set out on pages 6 to 8 of this document. As general economic circumstances and prospects may vary over time there can be no guarantee that future investments will be made in the same sectors or types of companies as the present portfolio.

The above information is unaudited and has been sourced from the Companies.

Part V – Definitions

Where used in this document the following words and expressions will, unless the context otherwise requires, have the following meanings:

"2006 Act"	the Companies Act 2006 (as amended)
"2008 Offer"	the offers for subscription of up to, 15,000,000 C Shares and 15,000,000 A Shares for each Company on the terms set out in the securities note dated 25 September 2008
"2008 Shares"	one A Share and one C Share or multiples thereof
"A Shares"	A Shares of 0.1p each in the capital of either or both of Downing VCT 2 (ISIN: GB00B3D74M80) and Downing VCT 3 (ISIN: GB00B3D74T59) (as applicable)
"the Acts"	the Companies Acts as defined in s.2 of the 2006 Act and every other statute from time to time in force in the United Kingdom concerning companies insofar as the same applies to the Company or any re-enactment thereof for the time being in force
"Additional Shares"	New Shares issued, at no cost to the Applicant, by virtue of the special terms set out on the inside cover of this document
"Admission"	admission of the D Shares and E Shares to the Official List and to trading on the London Stock Exchange's main market for listed securities
"Annual Running Costs"	annual running costs incurred by the relevant Company in the ordinary course of its business (including irrecoverable VAT but excluding any amount payable in respect of the Performance Incentive)
"Applicant"	Investor who subscribes for New Shares pursuant to the Prospectus
"Application Form"	form of application for New Shares under the Offers set out at the end of this document
"Articles"	Articles of Association of either or both of the Companies (as applicable)
"Business Days"	any day, other than a Saturday or Sunday on which clearing banks in London are open for all normal banking business
"C Shares"	C Shares of 0.1p each in the capital of either or both of Downing VCT 2 (ISIN: GB00B3D74S43) and Downing VCT 3 (ISIN: GB00B3D75146) (as applicable)
"Cap"	limits the maximum Performance Incentive in respect of the New Shares to an amount equivalent to 1.25% of the Net Assets attributable to New Shares per annum, calculated on a semi-annual basis by reference to each Company's unaudited half yearly accounts and audited year end accounts. If, in any accounting period of the relevant Company, the Performance Incentive payable, in respect of the New Shares, is less than the Cap then the Cap for following accounting periods will increase by the amount of the shortfall until fully utilised by payments of the Performance Incentive
"Company(ies)"	Downing Protected VCT II plc (subject to Shareholder approval, to be renamed Downing Planned Exit VCT 2 plc at the relevant General Meeting) and/or Downing Protected VCT III plc (subject to Shareholder approval, to be renamed Downing Planned Exit VCT 3 plc at the relevant General Meeting) (as applicable)
"CREST"	the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)) for the paperless settlement of transfers and the holding of shares in uncertificated form which is administered by Euroclear UK & Ireland Limited
"CREST Regulations"	Uncertificated Securities Regulations 1995 (SI 1995/3272)
"D Shares"	D Shares of 0.1p each in the capital of either or both of Downing VCT 2 (ISIN: GB00B4VR3D16) and Downing VCT 3 (ISIN: GB00B4V7FP75) (as applicable)
"Deferred Shares"	deferred shares of 0.1p each in the capital of the relevant Company
"Directors" or "Board"	directors of the relevant Company
"Downing"	Downing Corporate Finance Limited, which is authorised and regulated by the Financial Services Authority
"Downing VCT *"	Downing Protected VCT * plc, where * is any combination of I-IX or expressed as "1-9", as applicable
"Downing VCT 2" or "Downing Planned Exit VCT 2 plc"	Downing Protected VCT II plc (subject to Shareholder approval, to be renamed Downing Planned Exit VCT 2 plc at the relevant General Meeting)
"Downing VCT 3" or "Downing Planned Exit VCT 3 plc"	Downing Protected VCT III plc (subject to Shareholder approval, to be renamed Downing Planned Exit VCT 3 plc at the relevant General Meeting)
"Downing VCT 2 Group"	Downing VCT 2 and its wholly owned subsidiary Downing Managers II Limited
"Downing VCT 3 Group"	Downing VCT 3 and its wholly owned subsidiary Downing Managers III Limited
"Downing Opportunities VCT"	Downing Protected Opportunities VCT 1 plc
"Downing VCTs"	Downing VCT I – IX and Downing Opportunities VCT, as applicable
"DTR"	the Disclosure and Transparency Rules, being the rules published by the FSA from time to time and relating to the disclosure of information in respect of financial instruments
"E Shares"	E Shares of 0.1p each in the capital of either or both of Downing VCT 2 (ISIN: GB00B4TLF407) and Downing VCT 3 (ISIN: GB00B4VZ1D11) (as applicable)
"Existing Shares"	A Shares and/or C Shares and/or Ordinary Shares
"Existing Shareholders"	holders of Existing Shares
"Fixed Income Securities"	investments made by the Company which do not comprise Qualifying Investments, such as bank deposits, loan stock, bonds, preference shares and other debt instruments
"FSA"	Financial Services Authority
"FSMA"	Financial Services and Markets Act 2000 (as amended)
"General Meeting"	general meeting of each Company to be held on 8 December 2009 at which the resolutions described in paragraph 4.5 of Part IV of the Registration Document will be proposed
"Group"	Downing VCT 2 Group and/or Downing VCT 3 Group as applicable
"Hurdle"	achievement calculated on a per New Share basis of (a) a Compound Return of at least 7% per annum and (b) the payment of Shareholder Proceeds of at least 100% of the gross amount subscribed on that New Share under the Offers
"Investor"	subscriber under the Offers
"IRR"	the internal rate of return, which applied to the relevant cash flows, produces a net present value of zero (expressed as a percentage)
"ITA"	Income Tax Act 2007
"Listed"	admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities
"Listing Rules"	Listing Rules of the UK Listing Authority
"London Stock Exchange"	London Stock Exchange plc

"Management"	Management Team and other individuals engaged in the business of the Companies, the Managers and/or Downing
"Management A Shares"	3,587,523 A Shares in Downing VCT 2 and 3,568,688 A Shares in Downing VCT 3, issued to Management in connection with the 2008 Offer
"Management E Shares"	up to 5,000,000 E Shares in each Company to be issued to Management
"Management Team"	as at the date of this document, Paul Beaumont, Jonathan Boss, Pierre Clarke, Colin Corbally, Michael Hughes, Steven Kenee, Nicholas Lewis, Judith Mackenzie, Tony McGing and Grant Whitehouse
"Manager"	in the case of Downing VCT 2, Downing Managers II Limited, a wholly owned subsidiary of Downing VCT 2 and, in the case of Downing VCT 3, Downing Managers III Limited, a wholly owned subsidiary of Downing VCT 3
"ML Regulations"	Money Laundering Regulations 2007
"NAV" or "Net Asset Value"	net asset value per Share
"Net Assets"	gross assets less all liabilities (excluding contingent liabilities) of the relevant Company
"Net Return" or "Compound Return"	internal rate of return, calculated from the date of the last allotment of New Shares under the Offers, on the cash flows arising in respect of the gross amount subscribed for New Shares, the deemed receipt of 30% of such amounts representing income tax relief thereon seven months later and the receipt of any Shareholder Proceeds. These cash flows will be calculated on a daily basis and annualised and are in respect of New Shares issued in the relevant Company
"New Shareholders"	subscribers under the Offers
"New Share(s)"	one D Share and one E Share or multiples thereof
"Notice"	notice of the General Meeting of each Company as set out in the circular to holders of Ordinary Shares and/or C Shares dated 6 November 2009
"Offer Agreement"	agreement dated 6 November 2009 between the Companies (1), the Directors (2), the Sponsor (3) and Downing (4), a summary of which is set out in paragraph 7(a) of Part IV of the Registration Document
"Offer Price"	100p per New Share comprising 99.9p per D Share and 0.1p per E Share
"Offers" or "New Share Offers"	together, the 2009/10 Offer and the 2010/11 Offer being offers for subscription of up to, in aggregate, 20,000,000 D Shares and 20,000,000 E Shares
"2009/10 Offer"	offer for subscription in respect of the 2009/10 tax year, being made by each Company on the terms set out in this document
"2010/11 Offer"	offer for subscription in respect of the 2010/11 tax year, being made by each Company on the terms set out in this document
"Official List"	the Official List of the UK Listing Authority
"Ordinary Shareholders"	holders of Ordinary Shares
"Ordinary Shares"	Ordinary Shares of 1p each in the capital of either or both of Downing VCT 2 (ISIN: GB00B0697094) and Downing VCT 3 (ISIN: GB00B078VQ91) (as applicable)
"Performance Incentive"	performance related incentive payable in relation to the New Shares to Management in the event that the Hurdle is achieved, represented by the profit on the Management E Shares, as described in this document under the section headed "Costs"
"Prospectus"	this document, the Registration Document and the Summary which together describe the Offers in full
"Prospectus Rules"	Prospectus Rules issued by the Financial Services Authority and made under Part IV of the Financial Services and Markets Act 2000
"Qualifying Companies"	unquoted companies carrying on qualifying trades wholly or mainly in the United Kingdom and which satisfy certain other conditions as defined in Chapter 4 Part 6 of the ITA
"Qualifying Investment"	investment in an unquoted trading company, which comprises a qualifying holding for a VCT as defined in Chapter 4 Part 6 of the ITA
"Registrar"	Capita Registrars Limited
"Registration Document"	the document which has been prepared in accordance with the Prospectus Rules in connection with the Offers
"RPI"	Retail Prices Index
"Secured Loans"	non-VCT qualifying loans proposed to be made by the Companies which will be secured on assets
"Securities Note"	this document which has been prepared in accordance with the Prospectus Rules in connection with the Offers
"Shareholder Proceeds"	amounts paid by way of dividends or other distributions, share buy-backs, proceeds on a sale or liquidation of the relevant Company and any other proceeds or value received, or deemed to be received, by New Shareholders in the relevant Company, excluding any income tax relief on subscription
"Shareholders"	holders of Shares
"Share(s)"	Ordinary Share(s) and/or A Share(s) and/or C Share(s) and/or D Share(s) and/or E Share(s) (excluding Management A Shares and Management E Shares), as applicable
"Sponsor"	Howard Kennedy
"Summary"	summary of the Offers prepared in accordance with the Prospectus Rules
"Total Proceeds"	Shareholder Proceeds together with the Performance Incentive
"Total Return"	NAV together with cumulative dividends paid or proposed including tax credits where reclaimable
"UK Listing Authority"	Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
"VCT"	company approved as a venture capital trust under Section 274 ITA
"VCT Regulations"	The Venture Capital Trust (Winding Up and Mergers) (Tax) Regulations 2004

Part VI – Additional Information

1. The Companies

1.1 Incorporation

Downing VCT 2 and Downing VCT 3 were each incorporated in England and Wales as public companies with limited liability on 17 January 2005 with registered numbers 5334418 and 5334413 respectively. The principle legislation under which the Companies operate and under which the Ordinary Shares, A Shares, C Shares, D Shares and E Shares have been created is the Acts and regulations made thereunder.

1.2 Duration of the Companies

Originally, it was intended to put an ordinary resolution, for each Company to discontinue as a Venture Capital Trust, to each Company's Shareholders in 2016. A resolution has been proposed at the General Meeting to remove this requirement from the articles of association and instead wind up individual share classes as appropriate.

1.3 Borrowing Policy

The Directors may exercise all the powers of each Company to borrow money and to mortgage or charge its undertakings, property and uncalled capital. The Directors shall restrict the borrowings of each Company and, by the exercise of each Company's voting and other rights or powers of control over its subsidiary undertakings (if any), secure that they restrict their borrowings, so that the aggregate amount at any time outstanding in respect of money borrowed by the group, being each Company and its subsidiary undertakings for the time being (excluding intra-group borrowings), shall not, without the previous sanction of an ordinary resolution of the relevant Company, exceed a sum equal to 50% of the aggregate total amount received from time to time on the subscription of shares to the relevant Company.

1.4 Cancellation of the Share Premium Account

The Directors are aware of the possibility that the Company's Shares may trade at a discount to their net asset value at some point. The Directors consider that each Company should have the ability to purchase its Shares in the market (such Shares to be automatically cancelled) with the aim of reducing any discount and increasing the net asset value per Share of the remaining Shares. In the view of the Directors, the awareness of Investors that each Company has such a capability may tend to moderate the scale of any discount which may emerge and the action of buying in shares should enable any such discount to be narrowed.

The Acts provides that a public company may only purchase its own shares out of distributable profits or out of the proceeds of a fresh issue of shares made for the purpose of the purchase. Subject to confirmation from HM Revenue & Customs that such proposals will not adversely affect each Companies VCT status and Court approval, the Companies may decide to reduce and/or cancel the share premium account (created on the issue of the New Shares pursuant to the Offers) and to transfer the balance of the special reserve, which was established by the cancellation of a previous share premium account, which may be treated as a distributable profit, out of which purchases of shares can be made subject to regulations, VCT Rules and company legislation.

1.5 Stamp Duty and close company status

The Companies have been advised that no stamp duty or stamp duty reserve tax will be payable on the issue of the New Shares issued under the Offers. On the issue of the New Shares pursuant to the Offers, the Companies will not be a close company for tax purposes.

1.6 Material Interests

The Managers will each be paid an annual investment management fee of 1.35% of the Net Assets attributable to the New Shares of the relevant

Company. In line with normal VCT practice, Management will be entitled to receive a Performance Incentive, of up to 1.25% of Net Assets attributable to the New Shares per annum. Further details of these arrangements are set out in Part III of this document.

1.7 Investor profile

A typical Investor will be a retail client (not a corporate), who is aged 18 or over and pays UK income tax who already has a portfolio of non-VCT investments such as unit trusts/OEICs, investment trusts and direct shareholdings in listed companies and has sufficient income and capital so that his investment in the Company can be held for over five years. The individual will be professionally advised and/or a sophisticated investor. The individual's income tax liability should be more than sufficient to utilise all the initial income tax relief available on the investment. The individual should be willing to invest over the medium to long term and be comfortable with higher risk investments.

1.8 Results of the Offers

The results of the Offers will be announced through a regulatory information service provider.

2. Taxation and HM Revenue & Customs Approval

The Directors intend to conduct the affairs of each Company so that it continues to satisfy the conditions for approval as a VCT and that such approval will be maintained. HM Revenue & Customs has granted each Company provisional approval under Part 6 of the ITA as a VCT. Each Company intends to comply with Section 274 of the ITA and has retained PricewaterhouseCoopers LLP to advise it on VCT taxation matters.

3. Working Capital and Capitalisation and Indebtedness Statements

3.1 Working Capital

In the opinion of Downing VCT 2, the working capital available to the Downing VCT 2 Group is sufficient for its present requirements, that is, for at least 12 months from the date of this document.

In the opinion of Downing VCT 3, the working capital available to the Downing VCT 3 Group is sufficient for its present requirements, that is, for at least 12 months from the date of this document.

3.2 Statement of Capitalisation and Indebtedness

The table below shows the capitalisation of each Company as at 31 October 2009 (extracted from the unaudited management accounts of the relevant Company for the period ended 31 October 2009).

	Downing VCT 2	Downing VCT 3
	£'000	£'000
Total current debt		
Guaranteed	-	-
Secured	-	-
Unguaranteed/secured	-	-
Total non-current debt		
Guaranteed	-	-
Secured	-	-
Unguaranteed/secured	-	-
Shareholders' equity		
Share capital	122	122
Other reserves	6,811	6,859
	<u>6,993</u>	<u>6,981</u>

There has been no material change in the capitalisation of either Company, total debt or Shareholder equity since 31 October 2009.

The following table shows each Company's net indebtedness as at 31 October 2009 (extracted from the unaudited management accounts of the relevant Company for the period ended 31 October 2009).

	Downing VCT 2 £'000	Downing VCT 3 £'000
A Cash	1,335	1,297
B Cash equivalent	-	-
C Trading Securities	-	-
D Liquidity (A+B+C)	1,335	1,297
E Current financial receivables	-	-
F Current bank debt	-	-
G Current position of non current debt	-	-
H Other current financial debt	-	-
I Current financial debt (F+G+H)	-	-
J Net current financial indebtedness (I-E-D)	(1,335)	(1,297)
K Non-current bank loans	-	-
L Bonds issued	-	-
M Other non-current loans	-	-
N Non-current financial indebtedness (K+L+M)	-	-
O Net financial indebtedness (J+N)	(1,335)	(1,297)

Neither Company has any contingent or indirect indebtedness.

4. Creation of the New Shares

The Companies have issued a circular dated 6 November 2009 to holders of Ordinary Shares and/or C Shares convening a general meeting on 8 December 2009. The following resolutions will be proposed and, other than resolution 7, are all conditional upon the passing of the other resolutions contained in the Notice:

Ordinary Resolutions:

- 1) to increase the authorised share capital from £475,000 to £550,000 by the creation of 30,000,000 D Shares and 45,000,000 E Shares representing an increase of 16% in the current authorised share capital;
- 2) to authorise the directors to allot up to an aggregate nominal amount of £75,000. The allotments referred to represent, in aggregate, approximately 63% of the issued share capital of the Companies as at the date of this document. Such authority will expire on the later of 15 months from the date the resolution is passed and the end of the Companies' next annual general meetings.

Special Resolutions:

- 3) to authorise the directors to allot the shares referred to in the previous resolution as if section 561(1) of the 2006 Act did not apply. This dis-application represents approximately 63% of each Company's current issued share capital. This authority will expire on the later of 15 months from the date the resolution is passed and the end of the Companies' next annual general meetings;
- 4) to alter the Articles of Association to, *inter alia*, provide for the rights attaching to the D Shares and E Shares;
- 5) to authorise the Boards to make market purchases of D Shares and E Shares;
- 6) to authorise the cancellation of the share premium account arising on the issue of the D Shares; and
- 7) to change the name of the Company.

5. Overseas Investors

- (a) No person receiving a copy of this document or an Application Form in any territory other than the UK may treat the same as constituting an offer or invitation to him to subscribe for or purchase New Shares unless, in such territory, such offer or invitation could lawfully be made.
- (b) No action has been taken to permit the distribution of this document in any jurisdiction outside the UK where such action is required to be taken. All Applicants will be required to warrant that they are not a US person as defined in paragraph 5(x) of Part VII of this document or a resident of Canada.

6. Information Sourced from Third Parties

Where information set out in this document has been sourced from third parties the source has been identified at the relevant place in the document and each Company confirms that this information has been accurately reproduced and, as far as each Company is aware and able to ascertain from information published, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Part VII – Terms and Conditions of Application

1. In these Terms and Conditions of Application, the expression "Prospectus" means this document, the Registration Document and the Summary, each dated 6 November 2009. The expression "Application Form" means the application form for use in accordance with these Terms and Conditions of Application. The expression "the Company" when used in this Part VII means the relevant Company to which your Application Form is deemed to relate. Save where the content requires otherwise, the terms used in the Application Form bear the same meaning as in the Prospectus.
2. The right is reserved to reject any application or to accept any application in part only. Multiple applications are permitted. If any application is not accepted, or if any contract created by acceptance does not become unconditional, or if any application is accepted for fewer New Shares than the number applied for, or if in any other circumstances there is an excess payment in relation to an application, the application monies or the balance of the amount paid or the excess paid on application will be returned without interest by post at the risk of the Applicant. In the meantime application monies will be retained in the Company's account with Bank of Scotland.
3. You may pay for your application for New Shares by cheque or bankers' draft submitted with the Application Form.
4. The contract created by the acceptance of applications under the Offers in the manner set out herein will be conditional on:
 - (i) resolutions 1 to 6 being passed at the Company's General Meeting to be held on 8 December 2009; and
 - (ii) admission in respect of the first allotment of New Shares under the Offers being granted not later than 5:00 p.m. on 30 April 2010.
5. By completing and delivering an Application Form, you:
 - (a) offer to subscribe for the number of New Shares specified on your Application Form or any smaller number for which such application is accepted at the Offer Price per New Share subject to the Prospectus, these Terms and Conditions of Application, the Memorandum of Association of the Company and its Articles;
 - (b) acknowledge that, subject to any adjustment for Additional Shares and IFA commission waived as extra Shares, if your subscription is accepted, you will be allocated one D Share (price 99.9p per share) and one E Share (price 0.1p per share) for each 100p invested;
 - (c) authorise your financial adviser, or whoever he or she may direct, the Registrar or the Company to send a document of title for, or credit your CREST account in respect of, the number of New Shares for which your application is accepted, and/or a crossed cheque for any monies returnable, by post at your risk to your address as set out on your Application Form;
 - (d) agree that your application may not be revoked and that this paragraph constitutes a collateral contract between you and the Company which will become binding upon despatch by post or delivery of your duly completed Application Form to the Company or to your financial adviser;
 - (e) warrant that your remittance will be honoured on first presentation and agree that, if such remittance is not so honoured, you will not be entitled to receive share certificates for the New Shares applied for or to enjoy or receive any rights or distributions in respect of such New Shares unless and until you make payment in cleared funds for such New Shares and such payment is accepted by the Company (which acceptance shall be in its absolute discretion and may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and that at any time prior to unconditional acceptance by the Company of such late payment in respect of such New Shares, the Company may (without prejudice to its other rights) treat the agreement to allot such New Shares as void and may allot such New Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such New Shares (other than return of such late payment at your risk and without interest);
 - (f) agree that all cheques and bankers' drafts may be presented for payment on the due dates and any definitive document of title and any monies returnable to you may be retained pending clearance of your remittance and the verification of identity required by the ML Regulations and that such monies will not bear interest;
 - (g) undertake to provide satisfactory evidence of identity within such reasonable time (in each case to be determined in the absolute discretion of the Company and the Sponsor) to ensure compliance with the ML Regulations;
 - (h) agree that, in respect of those New Shares for which your application has been received and processed and not rejected, acceptance of your application shall be constituted by the Company instructing Downing or the Registrar to enter your name on the share register;
 - (i) agree that all documents in connection with the Offers and any returned monies will be sent at your risk and may be sent to you at your address as set out in the Application Form;
 - (j) agree that, having had the opportunity to read the Prospectus, you shall be deemed to have had notice of all information and representations including the risk factors contained therein;
 - (k) confirm that (save for advice received from your financial adviser) in making such application you are not relying on any information and representation other than those contained in the Prospectus and you accordingly agree that no person responsible solely or jointly for the Prospectus or any part thereof or involved in the preparation thereof will have any liability for any such other information or representation;
 - (l) agree that all applications, acceptances of applications and contracts resulting therefrom under the Offers shall be governed by and construed in accordance with English Law and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances of applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
 - (m) irrevocably authorise the Company, the Registrar or Downing or any other person authorised by any of them, as your agent, to do all things necessary to effect registration of any New Shares subscribed by or issued to you into your name and authorise any representatives of the Company, the Registrar or Downing to execute any documents required therefore and to enter your name on the register of members of the Company;
 - (n) agree to provide the Company with any information which it may request in connection with your application or to comply with the VCT Regulations or other relevant legislation (as the same may be amended from time to time) including without limitation satisfactory evidence of identity to ensure compliance with the ML Regulations;
 - (o) warrant that, in connection with your application, you have observed the laws of all requisite territories, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action which will or may result in the Company, Downing or the Sponsor acting in breach of the regulatory or legal requirements of any territory in connection with the Offers or your application;
 - (p) confirm that you have read and complied with paragraph 6 below;
 - (q) confirm that you have reviewed the restrictions contained in paragraph 7 below;
 - (r) warrant that you are not under the age of 18 years;
 - (s) warrant that, if the laws of any territory or jurisdiction outside the United Kingdom are applicable to your application, you have complied with all such laws and none of the Company, Downing or the Sponsor or any of their respective agents will infringe any laws of any such territory or jurisdiction directly or indirectly as a result or in consequence of any acceptance of your application;

- (t) agree that Downing and the Sponsor are acting for each Company in connection with the Offers and for no-one else and that they will not treat you as their customer by virtue of such application being accepted or owe you any duties or responsibilities concerning the price of New Shares or concerning the suitability of New Shares for you or be responsible to you for the protections afforded to their customers;
- (u) warrant that if you sign the Application Form on behalf of somebody else or yourself and another or others jointly or a corporation you have the requisite power to make such investments as well as the authority to do so and such person will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these terms and conditions of application and undertake (save in the case of signature by an authorised financial adviser on behalf of the Investor) to enclose a power of attorney or a copy thereof duly certified by a solicitor with the Application Form;
- (v) warrant that you are not subscribing for the New Shares using a loan which would not have been given to you or any associate, or not given to you on such favourable terms, if you had not been proposing to subscribe for the New Shares;
- (w) warrant that the New Shares are being acquired by you for *bona fide* investment purposes and not as part of a scheme or arrangement the main purpose of which, or one of the main purposes of which, is the avoidance of tax. Obtaining tax reliefs given under the applicable VCT legislation is not of itself tax avoidance;
- (x) warrant that you are not a "US person" as defined in the United States Securities Act of 1933 (as amended) nor a resident of Canada and that you are not applying for any Shares on behalf of or with a view to their offer, sale or delivery, directly or indirectly, to or for the benefit of any US person or resident of Canada;
- (y) warrant that the information contained in the Application Form is accurate; and
- (z) agree that if you request that New Shares are issued to you on dates other than 5 April 2010 or 30 April 2010 and such New Shares are not issued on such date that the relevant Company and its agents and Directors will have no liability to you arising from the issue of such New Shares on a different date.
6. No person receiving a copy of the Prospectus, or an Application Form, in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her or such Application Form could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application hereunder to satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any of the formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.
7. The New Shares have not been and will not be registered under the United States Securities Act 1933, as amended, or under the securities laws of any state or other political subdivision of the United States, and may not be offered or sold in the United States of America, its territories or possessions or other areas subject to its jurisdiction (the "USA"). In addition, the Company has not been and will not be registered under the United States Investment Company Act of 1940, as amended. The Manager will not be registered under the United States Investment Adviser Act of 1940 (as amended). No application will be accepted if it bears an address in the USA.
8. This application is addressed to the Company and the Sponsor. The rights and remedies of the Company and the Sponsor under these Terms and Conditions of Application are in addition to any rights and remedies which would otherwise be available to either of them, and the exercise or partial exercise of one will not prevent the exercise of others.
9. The dates and times referred to in these Terms and Conditions of Application may be altered by the Company with the agreement of the Sponsor.
10. Authorised financial advisers who, acting on behalf of their clients, return valid Application Forms bearing their stamp and Financial Services Authority number will be entitled to commission on the amount payable in respect of the New Shares allocated for each such Application Form at the rates specified in the paragraph headed "Commission" in Part I of this document. Authorised financial advisers may agree to waive part or all of their initial commission in respect of an application. If this is the case, then such application will be treated as an application to apply for the number of New Shares stated in box number 2 of the Application Form together with a number of additional New Shares equivalent to the amount of commission waived at £1.00 per New Share, which waived commission will be applied in subscription for such New Shares. Downing or the Registrar is authorised to amend such box number 2 to include any such additional New Shares. Financial advisers should keep a record of Application Forms submitted bearing their stamp to substantiate any claim for their commission.
11. The section headed Notes on Application Form forms part of these Terms and Conditions of Application.
12. It is a condition of the Offers to ensure compliance with the ML Regulations. Downing is therefore entitled to require, at its absolute discretion, verification of identity from any Applicant including, without limitation, any person who either (i) tenders payment by way of a cheque or bankers' draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to Downing to be acting on behalf of some other person. Pending the provision of evidence satisfactory to Downing as to the identity of the Applicant and/or any person on whose behalf the Applicant appears to be acting, Downing may, in its absolute discretion, retain an Application Form lodged by an Applicant and/or the cheque or other remittance relating thereto and/or the Registrar may not enter the Applicant on the register of members or issue any share certificates in respect of such application. If verification of identity is required, this may result in delay in dealing with an application and in rejection of the application. The Company reserves the right, in its absolute discretion, for it or Downing to reject any application in respect of which Downing considers that, having requested verification of identity, it has not received evidence of such identity satisfactory to it by such time as was specified in the request for verification of identity or in any event within a reasonable period. In the event of an application being rejected in any such circumstances, the Company reserves the right in its absolute discretion, but shall have no obligation, to terminate any contract of allotment relating to or constituted by such Application Form (in which event the money payable or paid in respect of the application will be returned (without interest) to the account of the drawee bank from which such sums were originally debited) and/or to endeavour to procure other subscribers for the New Shares in question (but in each case without prejudice to any rights the Company may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid). The submission of an Application Form will constitute an undertaking by the Applicant to provide promptly to Downing such information as may be specified by it as being required for the purpose of the ML Regulations.
13. The right is also reserved to treat as valid and binding any application not complying fully with these Terms and Conditions of Application or not in all respects complying with the Notes on Application Form. In particular, but without limitation, the Company may accept applications made otherwise than by completion of an Application Form where the Applicant has agreed in some other manner acceptable to the Company to apply in accordance with these Terms and Conditions of Application.
14. The Company and/or Downing may use the information you give for administration, research and/or statistical purposes. Your details may be used by the Company and/or Downing (but will not be sold to third parties) to send you information on other potential investment opportunities (maximum six communications per annum). If you would prefer not to receive such information, please write to Downing.

Downing Planned Exit VCTs 2 & 3

Application Form

Make your cheque or bankers' draft out to "Downing Planned Exit VCT 2 plc – D Shares" and crossed "A/C Payee only" and return this form as soon as possible to Downing Corporate Finance Limited, Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU.

1	Title and Name in Full						
	Permanent Address						
	Postcode			Daytime Tel			
	Email Address						
	Date of Birth	/	/	19	National Insurance No.		
	(day/month/year)						

2	I am applying for New Shares as follows:	2009/10 tax year (income tax year 2009/10)	<input type="text"/>	A
		2010/11 tax year (income tax year 2010/11)	<input type="text"/>	B
		TOTAL (A + B)	<input type="text"/>	C

Or such lesser sum for which this application may be accepted on the Terms and Conditions of Application set out in Part VII of this document dated 6 November 2009. Please send me a certificate(s) confirming my entitlement to venture capital trust tax reliefs.

3	The total amount I am paying for the New Shares is (at £1 per New Share)	£ <input type="text"/>
		Min £5,000

BY SIGNING THIS FORM I HEREBY DECLARE THAT: (i) I have had an opportunity to receive the Prospectus dated 6 November 2009 and to read the terms and conditions of application therein; (ii) I will be the beneficial owner of the New Shares in Downing Planned Exit VCT 2 plc* or Downing Planned Exit VCT 3 plc* issued to me pursuant to the Offers; (iii) to the best of my knowledge and belief, the particulars I have given to Downing Planned Exit VCT 2 plc* and Downing Planned Exit VCT 3 plc* are correct; and (iv) I acknowledge that my application for New Shares will be allocated in the manner described under the heading "The Offers and Minimum and Maximum Subscription" in Part I of this document. *The names of the Companies at the date of this document are Downing Protected VCT II plc and Downing Protected VCT III plc respectively and, subject to Shareholder approval, they are to be renamed to the above names at the General Meeting of each Company to be held on 8 December 2009.

4	Please tick this box if you would like to receive progress updates from the Company by email (approximately five emails per year)	<input type="checkbox"/>
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HM Revenue and Customs may inspect this application form. It is a serious offence to make a false declaration.

5	Signature	<input type="text"/>	Date	<input type="text"/>
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Investors and their advisers are required to provide an email address if they require the receipt of the Application Form to be acknowledged.

Authorised intermediaries should stamp and complete this box	
Contact Name	
Firm Name	Smith & Williamson
FSA No.	180563
Address	25 Moorgate, London
Postcode	EC2R 6AY
Tel.	020 7131 4000
Email Address	

Commission Options (tick one box)	
Authorised intermediaries should complete this box	
A) <small>3% upfront; no trail</small>	<input type="checkbox"/>
OR	
B) S&W: reinvest 2.5% upfront; keep 0.25% p.a. trail	<input type="checkbox"/>
Commission waived (leave blank if nil waived)	
<i>S&W: Reinvest 2.5% upfront, keep 0.25% trail</i>	
(insert the sum in £s)	£ <input type="text"/>
Due completion of the agent's box indicates that the agent is duly authorised to transact investments of this type under the Financial Services and Markets Act 2000.	

For Official Use Only			
Less than £11,000	<input type="text"/>	Letter of Introduction	<input type="text"/>
Personal Cheque	<input type="text"/>	List A	<input type="text"/>
		List B	<input type="text"/>
		Money Laundering Officer	<input type="text"/>



Notes on Application Form

Before making an application to acquire New Shares you are strongly recommended to consult an appropriate financial adviser authorised under the Financial Services and Markets Act 2000. It is essential that you complete all parts of the Application Form in accordance with the instructions in these notes. Please send the completed Application Form, together with your cheque or bankers' draft by post, or deliver it by hand, to Downing Corporate Finance Limited, Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU. If you have any questions on how to complete the Application Form please contact Downing Corporate Finance Limited on 020 7416 7780 or your financial adviser.

The following notes should be read in conjunction with the Application Form and the Terms and Conditions of Application.

1

Insert in Box 1 in BLOCK CAPITALS your full name, permanent address, daytime telephone number, date of birth, National Insurance number and, if you have one, your email address. Joint applications are not permitted.

2

Insert (in figures) the number of New Shares you are applying for in the 2009/10 Offer in Box A (state nil if appropriate). Insert (in figures) the number of New Shares you are applying for in the 2010/11 Offer in Box B (state nil if appropriate). **You may post-date your cheque to 6 April 2010 in respect of the sum in Box B.** Insert (in figures) the total of Boxes A and B in Box C.

3

Insert (in figures) in Box 3 the amount you wish to invest under the Offers (which is equivalent to the same number of New Shares at £1 per Share). For each £1 invested you will be allocated one D Share at a price of 99.9p and one E Share at a price of 0.1p. The share subscriptions will be adjusted to reflect any commission waived (by agents) as extra Shares or Additional Shares issued for early subscriptions.

Please note that the minimum investment is £5,000. The maximum investment, on which tax reliefs on investments in VCTs are available, is £200,000 in each of the 2009/10 and 2010/11 tax years.

Attach your cheque or bankers' draft to the Application Form for the exact amount shown in Box 3. Your cheque or bankers' draft must be made payable to "**Downing Planned Exit VCT 2 plc – D Shares**" and crossed "A/C Payee only". Your payment must relate solely to this application. No receipt will be issued.

Money Laundering Regulations 2007 – Important note for applications of £11,000 or more

If the value of the shares applied for is £11,000 or more (or is one of a series of linked applications, the value of which exceeds that amount) payment should be made by means of a cheque drawn on an account in the name of the Applicant. If this is not practicable and you use a cheque drawn by a third party or a building society cheque or bankers' draft, you should write the name, address and date of birth of the Applicant on the back of the cheque or bankers' draft and:

- (a) if a building society cheque or bankers' draft is used, the building society or bank must also endorse on the cheque or draft the name and account number of the person whose account is being debited; or
- (b) if a cheque is drawn by a third party, you must ensure that one item from each of List A and List B (see below) is enclosed with the form.

Alternatively, verification of the Applicant's identity may be provided by means of a "Letter of Introduction" in the prescribed form from a UK or European Economic Area financial institution (such as a bank or stockbroker) or other regulated person (such as a solicitor, accountant or appropriate financial adviser) who is required to comply with the ML Regulations. The relevant financial institution or regulated person will be familiar with the requirements and the relevant form.

For applications of £11,000 or more and subscription by way of a cheque drawn by a third party (one item from List A AND one item from List B)

List A (Verification of Identity)

Current signed passport
Current UK Driving Licence
HM Revenue and Customs Tax Notification
Firearms Certificate

List B (Verification of Address)

Recent* utility bill (but not a mobile telephone bill)
Recent* local authority tax bill
Recent* bank or building society statement
Recent* mortgage statement from a recognised lender

Please send original (not passport or driving licence) or certified copies of the documents. Certified as a true copy of the original by a UK lawyer, banker, authorised financial intermediary (e.g. financial adviser or an FSA authorised mortgage broker), accountant, teacher, doctor, minister of religion, postmaster or sub-postmaster. The person certifying the document should state that the copy is a true copy of the original, print their name, address, telephone number and profession and sign and date the copy. *"Recent" means within the last three months.

No Money Laundering verification is required to be enclosed if the application is for less than £11,000 or if payment is by means of a cheque drawn on an account in the name of the Applicant (provided that (a) the cheque includes details of the Applicant's bank account or building society account (as applicable) and (b) the cheque is drawn on a UK or European Union authorised bank or credit institution). Please note, however, that Downing may, in its absolute discretion, require Money Laundering verification and that Money Laundering verification will be required by introducing financial advisers.

4

Please tick this box if you would like to receive email updates from the Companies (approximately five emails per year).

5

Read the declaration and sign and date the Application Form in Box 5. If someone other than the Applicant named in Box 1 signs on such Applicant's behalf, such signatory must ensure that the declaration given on behalf of such Applicant is correct.

Authorised intermediaries who are entitled to receive commission should stamp and complete the agent's box, giving their full name and address, telephone number and details of their authorisation under the Financial Services and Markets Act 2000. The right is reserved to withhold payment of commission if the Company is not, at its sole discretion, satisfied that the agent is so authorised. Intermediaries should indicate which commission option they prefer by ticking one of the boxes. Intermediaries can choose to waive some or all of their upfront commission, which will be invested in additional shares for their clients.

Receipt of applications will be acknowledged only by email to both Applicants and their intermediaries.

